



USAID
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ROMANIA

Partnerships for Energy Reform: Supporting the Development of a Competitive Energy Market

The Challenge



National Regulatory Authority for Electricity representatives during a study tour in the U.S.

When Romanians overthrew the communists in 1989, the economy was largely based on energy intensive industries that were inefficient and polluting.

Monopolistic state ownership and control of the energy sector led to gross mismanagement of energy resources. This

resulted in major distortions throughout the economy. Excessive imports drained foreign exchange while price distortions and subsidies encouraged state-owned energy intensive industries to produce products inefficiently. Foreign investment, although greatly needed, was discouraged by the

uneven playing field and a lack of a sound legal and independent regulatory framework. These problems were compounded by the non-payment of energy bills by state industrial consumers, creating a vicious circle of debt arrears throughout the economy.

It was clear that without significant reform in the energy sector, the economic problems of the sector would continue to drive macroeconomic distortions throughout the economy. This would make reforms in other economic sectors less productive or perhaps impossible.

A significant infusion of capital was required to modernize operations. Therefore, unbundling of centrally controlled operations was needed to allow for private domestic and foreign capital investment in the sector.

Many rural areas did not have access to the electricity grid.



The Response

In the early 1990s, the U.S. Government helped the national electricity company provide electricity to the many rural villages that previously did not have power. It contributed conductors, transformers and poles to help connect 33 villages in four counties to the national power grid.

By the end of the 1990s, American assistance focused on restructuring the power sector to meet the needs of the emerging national and re-

gional energy markets. The main objective was to transfer ownership of state energy utilities to the private sector. Romanians strove to introduce a new corporate culture and a major change in peoples' attitudes so that the government would no longer be regarded as the controller of the market. The next stage was building the institutions of a competitive energy market and drafting new energy laws to regulate the electricity generating industry. U.S.

funded projects organized several study tours in the U. S. for energy specialists to meet with private utilities and energy regulators in state power commissions. The participants gained skills to work on critical elements such as drafting commercial and technical codes, performance indicators, tariffs, and so on.

The U.S. also supported the establishment of regional associations and encouraged Romanians to become key

players in the Black Sea energy market.

Later, the focus of American assistance switched to reducing the impact of rising energy prices on the poor. Key concepts, such as energy affordability, better allocation of social assistance to protect the poor from increased prices, and improved energy savings technologies became priorities.

The Results

- The power and gas markets were liberalized, setting the ground for competition in the sectors. Two large electricity generating companies, assisted by USAID to privatize, are in the privatization process.
- National regulatory commissions for gas, electricity, and communication and information technology are fully operational, providing regulatory leadership.
- U.S. funded projects leveraged hundreds of millions of dollars from other donors for the rehabilitation of power infrastructure.
- Romania fulfilled the requirements for a World Bank structural adjustment loan, EU PHARE and foreign debt obligations.
- Measures to protect vulnerable people against the increase of energy price are included in the Energy Strategy for Romania (2007-2020) and the Plan for Rural Development.
- The Romanian authorities for electricity and natural gas are active participants in the Regional Energy Regulators Association, and Romania has become a key player in the Black Sea energy market.



USAID's Gas Regulatory and Restructuring Assistance Project in Romania: during an "In-house meeting" at The Romanian National Authority for Natural Gas Sector



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